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ALGONQUIN BUILDING CREDITS LIMITED

MAY 8 1962

FOR THE FISCAL YEAR ENDING DECEMBER 31st, 1961

FIFTH ANNUAL REPORT

Head Office, 10 EGLINTON AVENUE EAST, TORONTO, ONTARIO

ALGONQUIN BUILDING CREDITS LIMITED

HEAD OFFICE

10 Eglinton Avenue East
Toronto, Ontario

BRANCH

608 7th Street S.W.
Calgary, Alberta

AUTHORIZED CAPITAL

300,000 common shares without nominal or par value
25,000 6½% cumulative redeemable preference shares
of \$20.00 par value each.

ISSUED CAPITAL

91,630 common shares
10,000 6½% cumulative redeemable preference shares

OFFICERS

W. R. THOMAS	- - - - -	PRESIDENT
D. R. MUSGRAVE	- - - - -	VICE-PRESIDENT
D. E. McQUIGGE	- - - - -	SECRETARY
R. E. DAVIDSON, C.P.A.	- - - - -	TREASURER

DIRECTORS

R. D. GRANT	- - - - -	TORONTO, ONTARIO
R. M. JOHNSON	- - - - -	TORONTO, ONTARIO
F. D. LACE	- - - - -	TORONTO, ONTARIO
C. C. LAKING	- - - - -	TORONTO, ONTARIO
J. G. LIND	- - - - -	DORCHESTER, ONTARIO
D. E. McQUIGGE	- - - - -	TORONTO, ONTARIO
W. B. MACDONALD	- - - - -	TORONTO, ONTARIO
D. R. MUSGRAVE	- - - - -	TORONTO, ONTARIO
G. C. TATE	- - - - -	SUDBURY, ONTARIO
W. R. THOMAS	- - - - -	TORONTO, ONTARIO

SOLICITORS

HOLDEN, MURDOCH, WALTON, FINLAY, ROBINSON & PEPALL
TORONTO, ONTARIO

AUDITORS

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS
TORONTO, ONTARIO

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

7% Sinking Fund Debentures Series A

THE CANADA PERMANENT TORONTO GENERAL TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

Collateral Trust Notes

THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

REPORT OF THE DIRECTORS

TO: THE SHAREHOLDERS:

Your directors submit herewith the Fifth Annual Report of Algonquin Building Credits, Ltd. and its subsidiary company consisting of this report from your Directors, the Consolidated Financial Statements for the year ended December 31, 1961, and the Auditors Report thereon. Also enclosed is notice calling an Annual General Meeting of shareholders.

As you will see from the accompanying Financial Statements, instalment notes receivable showed a net increase of \$1,569,424.00 during the year and now total \$5,254,729.00. During the year \$3,850,000.00 in new instalment notes receivable were handled for dealers, which is an increase of \$924,000.00 over the previous year. The net profit for the year amounted to \$56,351.00 compared to \$73,745.00 in the previous year and after payment of \$13,000.00 in dividends on Preference Shares, represents 47.3c earned per Common Share. During the year the number of Common Shares outstanding increased from 86,280 to 91,630. This increase of 5,350 Common Shares resulted from 1,350 Shares being subscribed for by holders of Warrants which were attached to Series "A" Debentures and 4,000 Common Shares sold along with the \$1,500,000.00 Series "C" Collateral Trust Notes sold during the year.

In the year under review \$1,500,000.00 was received from the sale of the Series "C" Collateral Trust Notes referred to in the last annual report. As a result of the availability of these funds, the business development activities of your company were increased by adding a third field representative and stepping up the dealer sales aid program. The benefits of this program did not begin to show until the fourth quarter. At the end of the third quarter instalment notes receivable had increased by only 12% but at the end of the fourth quarter the increase had risen to 42% over the previous year-end. Although costs involved in processing and financing this additional business are included in 1961 figures, little of the resultant profit shows in 1961 results.

After a study of Western Canadian markets, a branch was opened at Calgary to handle business throughout the Province of Alberta. This branch has been very successful from the start and, although it operated within its overhead budget, its volume was over three times that which was expected. The beneficial effect of the new business volume in Alberta will not be felt until 1962, when this branch is expected to make a substantial contribution to profits.

The change over to punch card accounting was difficult and expensive. A change in supervisory personnel became necessary and extensive modifications of equipment were required. During this break-in period costs increased considerably but by the year-end this department was functioning efficiently. In the first three months of 1962 it has performed in a highly satisfactory fashion and is handling over 8,000 accounts with precision.

Alquin Securities Limited made a significant contribution to profits during the year and increased its portfolio of mortgages by \$336,255.00. Service to the lumber industry in the field of mortgages for new construction was increased.

At the annual general meeting in 1961 Messrs. Clarkson, Gordon & Co. were appointed as your Company's Auditors. Some consolidation of small balance sheet items and changes in presentation will be noted in the accompanying Financial Statements which present your company's affairs in concise fashion.

It is with a deep sense of personal loss that your directors advise you of the passing of Mr. Henry F. White, Q.C. Mr. White had been secretary and a director of the company since its inception. In January, 1962, Mr. W. B. Macdonald was appointed a director to complete the unexpired term of the late Mr. H. F. White, Q.C., and at the same time Mr. D. E. McQuigge was appointed Secretary pro tem.

While this report deals with a difficult year, the period has been a successful one in many respects. The operation in Western Canada has exceeded expectations and will contribute profitably in 1962. New techniques in the handling of instalment notes receivable through mechanical accounting and the stepped-up business development program should have a favourable effect in 1962.

The exacting period of change to mechanical accounting and the difficulties encountered presented a challenge which was met with resolution by your capable staff. Your directors wish to acknowledge their efforts with sincere thanks.

On Behalf of the Board,

W. R. THOMAS,
President.

ALGONQUIN BUILDING CREDITS LIMITED(Incorporated under the laws of Ontario)
and its wholly-owned subsidiary Alquin Securities Limited**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1961**

(with comparative figures at December 31, 1960)

ASSETS**CURRENT ASSETS:**

	1961	1960
Instalment notes receivable (including amounts not due within one year of approximately \$2,900,000 in 1961 and \$1,838,000 in 1960) after allowance for doubtful accounts of \$37,639 in 1961 and \$35,990 in 1960	5,254,729	3,685,305
Sundry accounts receivable and prepaid expenses	14,607	9,922
Total current assets	<u>\$5,269,336</u>	<u>\$3,695,227</u>

MORTGAGES RECEIVABLE:

Mortgages receivable over terms up to ten years (including instalments due within one year of \$178,000 in 1961 and \$87,000 in 1960)	\$ 740,108	\$ 403,853
	<u> </u>	<u> </u>

FIXED ASSETS:

Office equipment, automobiles and leasehold improvements, at cost	\$ 36,579	\$ 26,606
Less accumulated depreciation	14,455	8,717
Total fixed assets	<u>\$ 22,124</u>	<u>\$ 17,889</u>

DEFERRED CHARGES:

Unamortized note and debenture expense and discount	\$ 145,596	\$ 53,309
	<u>\$6,177,164</u>	<u>\$4,170,278</u>

On behalf of the Board: *W. R. THOMAS, Director*
D. R. MUSGRAVE, Director

The accompanying notes to the above consolidated balance sheet are an integral part thereof.

ALGONQUIN BUILDING CREDITS LIMITED

(Incorporated under the laws of Ontario)
and its wholly-owned subsidiary Alquin Securities Limited

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1961

(with comparative figures at December 31, 1960)

LIABILITIES

CURRENT LIABILITIES:

Bank overdraft — secured	\$ 204,674	\$ 61,394
Bank loan — secured	1,350,000	1,010,000
Accounts payable and accrued charges	97,296	38,354
Income taxes payable	4,666	40,941
Short term collateral trust notes, Series B	380,000	783,000

Total current liabilities \$2,036,636 \$1,933,689

DEFERRED INCOME:

Unearned service charges, instalment notes receivable	\$ 891,749	\$ 600,341
Unearned interest on mortgages	173,141	118,663
Total deferred income	\$1,064,890	\$ 719,004

LONG TERM LIABILITIES:

7% Collateral trust notes, Series A, due September 1, 1964 (note 2)	\$ 250,000	\$ 250,000
6 1/8% Sinking fund, collateral trust notes, Series C, maturing May 15, 1976	1,500,000	
7% Sinking fund debentures, Series A, maturing March 15, 1970 (including sinking fund instalment of \$30,000 due February 15, 1962 (note 2)	600,000	600,000
Total long term liabilities	\$2,350,000	\$ 850,000

SHAREHOLDERS' EQUITY:

Capital —		
6 1/2% cumulative, redeemable preference shares of \$20 par value each (notes 1 and 2):		
Authorized — 25,000 shares		
Issued — 10,000 shares	\$ 200,000	\$ 200,000
Common shares of no par value (notes 2, 3 and 4):		
Authorized — 300,000 shares		
Issued — 91,630 shares (86,280 at December 31, 1960)	480,375	434,250
Less commissions paid on issue of shares	\$ 680,375	\$ 634,250
	23,985	23,985
Earned surplus	\$ 656,390	\$ 610,265
	69,248	57,320
Total shareholders' equity	\$ 725,638	\$ 667,585
	\$6,177,164	\$4,170,278

To the Shareholders of
Algonquin Building Credits Limited:

AUDITORS' REPORT

We have examined the consolidated balance sheet of Algonquin Building Credits Limited and its wholly-owned subsidiary as at December 31, 1961 and the statements of consolidated profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of the companies as at December 31, 1961 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 28, 1962.

CLARKSON, GORDON & CO.,
Chartered Accountants.

ALGONQUIN BUILDING CREDITS LIMITED
and its wholly-owned subsidiary Alquin Securities Limited

**STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
AND CONSOLIDATED EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1961**
(with comparative figures for the year 1960)

CONSOLIDATED PROFIT AND LOSS

	1961	1960
REVENUE:		
Earned service charges and other income	\$ 568,328	\$ 441,282
EXPENSES:		
General and administrative expenses	\$ 239,241	\$ 143,028
Costs of borrowing money	201,411	136,423
Provision for doubtful accounts	19,603	14,616
Depreciation	6,447	5,721
Directors' fees	1,975	2,125
Total expenses	\$ 468,677	\$ 301,913
Profit before income taxes	\$ 99,651	\$ 139,369
Income taxes	43,300	65,624
Net profit for the year	\$ 56,351	\$ 73,745

CONSOLIDATED EARNED SURPLUS

	1961	1960
Balance at beginning of the year	\$ 57,320	\$ 27,274
Add net profit for the year	56,351	73,745
	\$ 113,671	\$ 101,019
DEDUCT:		
Dividends paid — preference shares	\$ 13,000	\$ 13,000
— common shares	31,423	30,198
Expenses re supplementary letters patent	501	
	\$ 44,423	\$ 43,699
Balance at end of the year	\$ 69,248	\$ 57,320

**ALGONQUIN BUILDING CREDITS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1961**

1. The preference shares are redeemable at a premium of 3½% in 1962 and 2½% thereafter.
2. The supplementary trust indenture securing the collateral trust notes series C limits the aggregate amount of dividends (other than stock dividends) and the redemption of capital stock subsequent to January 1, 1961 to the amount of the consolidated net earnings arising from that date. Under certain conditions the series C notes are redeemable at a premium of 6.5375% to May 15, 1963 and at reducing amounts thereafter.
The trust indenture securing the sinking fund debentures contains dividend and share redemption restrictions based on the relationship of the shareholders' equity to unsecured funded indebtedness. These debentures are redeemable at a premium of 5.6% to March 15, 1963 and at reducing amounts thereafter.
3. At December 31, 1961 the following warrants and options to subscribe for or purchase common shares were outstanding:
 - (a) Share purchase warrants (issued with the series A debentures) entitling the holders to purchase an aggregate of 13,650 common shares at the price of \$7.50 per share on or before March 15, 1962, at the price of \$10.00 per share thereafter to March 15, 1963 and at the price of \$12.00 per share thereafter to March 15, 1964.
 - (b) An option to Mr. W. R. Thomas, president and general manager of the company, to purchase all or any part of 5,000 common shares at \$5.50 per share, exercisable on or before March 15, 1964.
4. During 1961, 1,350 common shares were issued for \$10,125 cash on the exercise of share purchase warrants issued with the series A debentures and 4,000 shares were sold for \$36,000 cash.

RESULTS IN BRIEF

	1961	1960	1959
1. Total Assets of the Company	\$6,177,164.	\$4,170,278.	\$2,779,363
<i>a) Equity as a percent of Total Assets</i>	11.7%	16.0%	22.9%
<i>b) Unsecured debt as a percent of Total Assets</i>	11.3%	14.4%	—
<i>c) Secured debt as a percent of Total Assets</i>	53.5%	50.4%	57.6%
2. Instalment Notes and Mortgages receivable ..	\$6,032,476.	\$4,121,655.	\$2,732,199
3. Deferred Income:			
<i>a) Instalment accounts</i>	\$ 891,749.	\$ 600,341	\$ 429,002
<i>b) Mortgages receivable</i>	\$ 173,141.	\$ 118,663	\$ 43,749
<i>c) Percentage of Deferred Income (a) to Instalment Notes Receivable</i>	16.8%	16.13%	16.36%
4. Earnings and Dividends:			
<i>a) Gross income</i>	\$ 568,328.	\$ 441,282	\$ 263,088
<i>b) Net profit after taxes</i>	56,351.	\$ 73,745	\$ 56,050
<i>c) Earnings per share (after preference share dividends)</i>47c	.70c	50c
<i>d) Dividends per Common Share</i>	35c	.35c	.25c
<i>e) Earnings per equity dollar</i>	7.7%	11.0%	8.8%
<i>f) Times Preference Dividend Earned</i>	4.33	5.67	4.62

